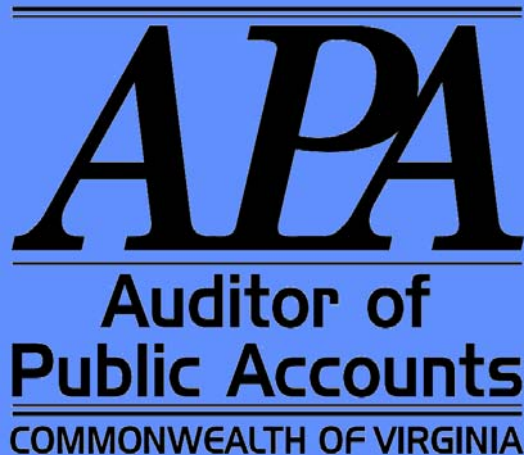


VIRGINIA COMMISSION FOR THE ARTS

REPORT ON AUDIT

FOR THE PERIOD

JULY 1, 2005 THROUGH JUNE 30, 2007



AUDIT SUMMARY

Our audit of the Virginia Commission for the Arts for the two-year period ended June 30, 2007, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operations necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AGENCY INFORMATION AND FINANCIAL HIGHLIGHTS

The Virginia Commission for the Arts (Commission) provides financial assistance for arts activities and advisory services to artists, arts organizations, and others interested in the arts. The Commission's funds come from the Virginia General Assembly and the National Endowment for the Arts, a federal agency.

Thirteen commissioners, each appointed to five-year terms by the Governor and confirmed by the General Assembly, direct the agency. The Commission maintains statewide representation by having at least one, but no more than two Commissioners, appointed from each congressional district. The Commissioners meet quarterly to review and approve grant applications and the activities of the Commission.

The Commission has seven regional and three statewide advisory panels that make recommendations on grant applications. Each panel consists of seven to nine members appointed by the Commission for one-year terms with a maximum of three years. The panelists represent a variety of arts disciplines and cultural perspectives.

A small staff of five people, located centrally in Richmond, tends to the business operations of the Commission. The responsibilities of the staff include processing and reviewing grant applications, monitoring the organizations and artists that receive awards, and promoting the arts in Virginia by providing a variety of workshops to arts organizations and artists.

The Commission's general fund appropriations increased by 37 percent between fiscal years 2006 and 2007. This increase reflects the funding goal stipulated in the Code of Virginia, which is to provide one dollar to the Commission for every Virginia resident. The 2007 funding level represented one dollar for approximately 60 percent of Virginia citizens. Proceeds from the sale of "Virginians for the Arts" specialty license plates at the Department of Motor Vehicles, and a check-off on state income tax forms that allows taxpayers to designate a portion of their refund to support arts in Virginia, comprise special revenue. The final revenue stream for the Commission consists of funds awarded by the National Endowment for the Arts, a federal agency.

Analysis of Budgeted and Actual Expenses

| | 2007 | | | 2006 | | |
|-----------------------------|----------------------------|-------------------------|--------------------|----------------------------|-------------------------|--------------------|
| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Expenses</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Expenses</u> |
| General fund appropriations | \$4,873,428 | \$4,918,962 | \$4,911,935 | \$3,543,395 | \$3,588,703 | \$3,570,481 |
| Special revenue fund | - | 8,887 | 8,887 | - | 6,255 | 6,255 |
| Federal | <u>577,700</u> | <u>721,678</u> | <u>533,705</u> | <u>591,800</u> | <u>723,840</u> | <u>601,263</u> |
| Total | <u>\$5,451,128</u> | <u>\$5,649,527</u> | <u>\$5,454,527</u> | <u>\$4,135,195</u> | <u>\$4,318,798</u> | <u>\$4,177,999</u> |

As a result of increased funding, the Commission's expenses increased by 31 percent between fiscal years 2006 and 2007. Grant awards comprised approximately 87 and 90 percent of the Commission's expenses in fiscal years 2006 and 2007 respectively. Administrative expenses were approximately \$490,000 in 2007 with personal services costs constituting 66 percent and contractual services (primarily for travel, IT services, printing, and postage) constituting 25 percent. The remaining nine percent includes equipment, supplies and materials, and other miscellaneous expenses.

Expenses by Type

| | <u>FY 2007</u> | <u>FY 2006</u> |
|-------------------------|--------------------|--------------------|
| Grant Awards | \$4,964,305 | \$3,663,810 |
| Administrative Expenses | <u>490,222</u> | <u>514,189</u> |
| Total | <u>\$5,454,527</u> | <u>\$4,177,999</u> |

Following is a list of grants the Commission awarded in fiscal years 2006 and 2007, including the number of grants awarded and the total amount awarded per grant.

Number and Amount of Awards by Grant Type

| | <u>FY 2007</u> | | <u>FY 2006</u> | |
|---|----------------|--------------------|----------------|--------------------|
| | <u>Awards</u> | <u>Amount</u> | <u>Awards</u> | <u>Amount</u> |
| General Operating Support Grants | 187 | \$3,455,300 | 188 | \$2,378,500 |
| Local Government Challenge Grants | 120 | 533,725 | 124 | 550,925 |
| Touring Assistance Program Grants | 252 | 276,394 | 280 | 261,088 |
| Project Grants | 55 | 209,711 | 63 | 169,350 |
| Technical Assistance Grants | 131 | 113,494 | 165 | 122,575 |
| Teacher Incentive Grants | 320 | 91,206 | 260 | 74,585 |
| Technology Enhancement Grants | 36 | 87,000 | - | - |
| American Masterpieces Tour | 11 | 73,000 | - | - |
| Artists in Education Residency Grants (PK-12) | 15 | 47,000 | 8 | 25,552 |
| Artist Fellowships | 9 | 45,000 | 8 | 40,000 |
| Special Recognition Grants | 3 | 30,000 | 4 | 30,000 |
| Writers in Virginia Program | 12 | 2,475 | 9 | 2,285 |
| Arts Curriculum Development Grants | - | - | 4 | 8,950 |
| Total | <u>1151</u> | <u>\$4,964,305</u> | <u>1113</u> | <u>\$3,663,810</u> |

Source: Virginia Commission for the Arts Grant Database

Grant awards for the General Operating Support Grant program represented about 70 percent of total grant awards in fiscal 2007 and 65 percent of total grants in fiscal year 2006. These grants assist organizations financially to continue, strengthen, and expand their artistic programs. Local Government Challenge Grants, the Commission's second largest grant program, encourages local governments to support the arts by matching amounts up to \$5,000 that local governments provide to arts organizations in their communities.

The Commission added two new grant programs for fiscal year 2007, Technology Enhancement and American Masterpieces Tour. The American Masterpieces Tour grant is a special initiative from the National Endowment for the Arts and is only available for fiscal years 2007 and 2008. For fiscal year 2007, the Commission chose to discontinue the Arts Curriculum Development grant program. The Commission determined that the program had achieved its mission during a bi-annual review of grant programs.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

May 15, 2008

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Virginia Commission for the Arts** (Commission) for the period July 1, 2005 through June 30, 2007. We conducted this performance audit in accordance with generally accepted Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Commission's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenue
Expenses
Grant Awards
Payroll

We performed audit tests to determine whether the Commission's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Commission's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Our audit did not include a follow-up to our Office's Review of Information Security in the Commonwealth of Virginia dated December 2006. The results of our follow-up will be communicated in a separate report.

Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Commission records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and the Commission's Grant Database.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on June 24, 2008. This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

JMR/clj

VIRGINIA COMMISSION FOR THE ARTS

Peggy J. Baggett
Executive Director

Foster J. Billingsley
Deputy Director

COMMISSIONERS

Lucius F. Ellsworth
Commission Chairman

David W. Briggs
Susan B. Hirschbiel
Bonita Lestina

Nicholas J. Covatta, Jr.
Maria Laqueur
Ann Edwards Rust

Jacquelyn E. Stone
Beth A. Temple
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Rod Taylor
William F. Trinkle
J. Vaughan Webb

